‘Social enterprise spin-outs’:

an institutional analysis of their emergence and potential

Leandro Sepulveda*, Fergus Lyon*, Ian Vickers*

* Centre for Enterprise and Economic Development Research
Middlesex University Business School
The Burroughs, London, NW4 4BT

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Corresponding author

Leandro Sepulveda
Tel: +44 (0)2084116563
Email: L.Sepulveda@mdx.ac.uk

Abstract

The recent phenomenon of public sector *'social enterprise spin-outs'* is examined in order to critically assess their nature and innovative potential as providers of public services. The study utilises a theoretical model of institutional creation and change which incorporates key characteristics of 'corporate spin-outs' and 'university spin-outs' to facilitate the examination of their public sector counterparts, drawing on interview evidence from 30 newly-established social enterprise providers of health and care services in England. A main contribution of the paper is to provide a conceptual framework which sheds light on the strengths and potential vulnerabilities of social enterprise spin-outs as novel organisations that span the public, private and civil society sectors.

Key words

'Spin-out' & 'spin-off' organisations; social enterprise; public service innovation; public policy

1. Introduction

This paper examines the emergence and potential of public service *'social enterprise spin-outs'*. In the United Kingdom this novel form of business organisation has been portrayed as an innovative vehicle for delivering public services (Hall, Miller, and Millar 2016; Sepulveda 2015), with potential to create social as well as economic value (Witkamp et al 2011). In particular, social enterprise spin-outs are seen to have certain advantages in addressing complex problems related to health and social wellbeing which derive from their ability as 'hybrid' organisations to combine characteristics and capabilities which are normally seen as being distinctive to either the public, private or civil society sectors (Transition Institute 2010). Nevertheless, previous studies have failed to unpack the nature and potential of these pioneering organisations, particularly in light of the insight and opportunity for comparative analysis offered by the extant literature on *'corporate spin-outs'* (Chemmanur and Yan 2004; Zahra, Van de Verde, and Larrañeta 2007) and on *'academic spin-outs'* (Grimaldi et al. 2011; Mustar, Wright, and Clarysse 2008) – with the latter in particular appearing to have some close commonalities with public service social enterprise spin-outs.

We seek to shed light on this phenomenon by asking: What are the foundational characteristics of 'social enterprise spin-outs'? (RQ1) and; Do such characteristics confer them with an entrepreneurial edge as providers of public services? (RQ2) The research framework builds upon the institutional analysis developed by McCarthy (2012) and incorporates insights from the world of corporate and university 'spin-outs' or 'spin-offs' - concepts which are generally used interchangeably. The paper is divided into five sections. Following this introduction, Section 2 presents the theoretical model that is used to examine the phenomenon of social enterprise spin-outs. The research methods are explained in Section

3, followed by the presentation of the main findings in Section 4, and a discussion and conclusion in Section 5.

2. Developing the theoretical framework

The theoretical framework utilised is based on a general model of analysis of institutional creation and change developed by McCarthy (2012) which has been adjusted to enable the analysis of specific characteristics associated with the spin-out organisational form. In particular, the proposed model draws on the understanding of corporate spin-outs (CSOs) and university spin-outs (USOs) in order to establish the parameters for a comprehensive examination of social enterprise spin-outs (SESOs), the focus of this paper.

Our review of the literature has enabled us to identify five key common characteristics of CSOs and USOs as: (i) entailing the creation of a new legally independent organisation; (ii) being born or originating from within a 'parent' organisation; (iii) the new 'offspring' organisation is established by former managers and/or staff of the parent organisation; (iv) a primary aim of the offspring is to commercially exploit new knowledge or technological innovation; and (v) the technological knowledge resource or innovation is transferred from the parent to the offspring (Chemmanur and Yan 2004; De Cleyn and Braet 2007; Lindholm 1997).

These five elements can be empirically examined in relation to the three drivers of institutional creation, as per McCarthy's (2012) analytic model: (i) institutional entrepreneurship; (ii) resource mobilisation; and (iii) the role of public policy. The first driver, *institutional entrepreneurship,* introduces the consideration of *'agency, interests and power'* in the process of creation (Garud, Hardy, and Maguire 2007, 957). Crucial here are key influential individuals (i.e. senior managers) and also the collective agency of employees (particularly in the case of SESOs) which will be examined in relation to the first three ‘spin-out’ characteristics identified above, and particularly with respect to the motivations behind the decision to leave the parent organisation and the legal form and governance structure adopted. The second driver, *resource mobilisation,* concerns the acquisition of both tangible and intangible resources, as in the original Resource-Based View of competitive strategy and comparative advantages of firms (Wernerfelt 1984), and is analysed here in terms of how resources are mobilised to meet the distinctive goals of SESOs. This relates to spin-out characteristics four and five, for which empirical variables include the transfer of resources from the parent to the child organisation and the nature of the relationship between both parties. The final driver of institutional creation, as per McCarthy’s model, is the role of *public policy* which we examine first, given the centrality of the UK welfare and public service reform agenda to the emergence of SESOs.

2.1 The role of UK public policy

Recent decades have seen ongoing efforts to reform public services by increasing the diversity or ‘choice’ of service providers to include more private and civil society/third sector organisations in their delivery (Walsh 1995). Social enterprise or ‘mutual’ spin-outs emerged in this policy arena in the second half of the 2000s (Cabinet Office 2010, 2011b; Transition Institute 2013), with increased contracting out of public services leading to their marketisation if not outright privatisation. This agenda entailed a drive to separate public services from state ownership and their transformation into mutual non-profit organisations, including charities, cooperatives, and social enterprises.

Under the New Labour (1997-2010) and Conservative-Liberal Democratic Coalition (2010-2015) governments this phenomenon reached a qualitatively different dimension compared to previous efforts, with a push to extend public service delivery beyond existing social enterprises to the creation of new ones from within the public sector. (Cabinet Office 2011b). These new 'public service mutuals', referred to as SESOs in this paper, can be defined as organisations that: *'have left the public sector* […]*, and continue to deliver public services, and in which employee control plays a significant role in their operation'* (Mutuals Taskforce 2012, 6) or as: *'an organisation that has transitioned out of a public sector body to become an independent public service provider'* (Transition Institute 2011, 35). Although this concept is relatively new (Transition Institute 2013), the phenomenon of public services breaking away from state control in Britain was presaged by the experience of New Leisure Trusts transitioning from state control in the early 1990s and under different institutional mechanisms and policy frameworks (see Simmons 2008).

This ambitious policy agenda also needs to be understood in relation to a policy context of fiscal austerity, ideological opposition to the idea of 'big government' and a theory of change that linked social enterprise with efficiency and innovation in public services (DoH 2008, 2009). The English health and social care sectors, and the National Health Service (NHS) in particular, have been the main laboratories for experimentation (Miller, Millar and Hall 2012), with policy documents calling for the NHS to become *'the largest social enterprise sector in the world'* (Cabinet Office 2010, 2011a, b) and encouragement for SESO creation provided by the 'Right to Request' programme and the £100 million Social Enterprise Investment Fund.

In July 2014 the UK government celebrated the birthday of the 100th 'social enterprise spin-out' and the sector as a whole was reported to employ around 35,000 people while delivering

£1.5 billion of public service contracts (1). Many more were expected to be established in the following years, although the sector remains relatively small. Comparable policy developments have been observed in areas such as social housing, education (i.e. academies), and probation services (Sepulveda 2015). This evidence, alongside the fact that many voices in Western Europe and beyond are calling for similar responses to growing social need and struggling welfare systems (Lyon and Sepulveda 2012), suggests that the state-led *'social enterprisation of public services'* (Sepulveda 2015) will continue to gain political momentum nationally and internationally, whatever forms it may take in future; hence the relevance of the current research.

UK public policy has therefore played a key role in setting up the institutional basis for the establishment of SESOs, in line with a theory of change that links the creation of new organisational forms with efficiency and innovation in public services. This raises the issue of *agency* and the role of *institutional entrepreneurship* - the first element in McCarthy's (2012) model which is analysed below.

2.2 Institutional entrepreneurship

(i) Motivations to spin-out

We have already identified public policy as a key driver in the case of SESOs, although there is also a need to consider the role of entrepreneurial actors at the organisational level. With regard to CSOs and USOs, the literature supports that the critical decision to create a spin-out is generally taken by the parent organisation - or a 'top-down' approach (Zahra, Van de Verde, and Larrañieta 2007), but can also be motivated by key individuals from within the organisation (e.g. senior managers) who wish to leave the parent entity to establish a new venture - or a 'bottom-up' approach (Cabral and Wang 2009).

In a top-down approach, the ultimate decision resides with the parent organisation at the top-managerial level (i.e. CEOs and owners) and in light of corporate strategies (Chemmanur and Yan 2004). The need for restructuring and downsizing in response to market pressures is often singled out as the main driver of the break-up of large companies (Cusatis, Miles, and Woolridge 1993). Certain 'non-market factors' may also contribute to corporate restructuring agendas, including perceptions of poor decision making; a failure to attract 'highfliers'; and a desire to allow subsidiaries 'wings to grow' (Anslinger 2000). Such considerations are also common in the decision making processes of USOs (Wright et al. 2008). Moreover, changes in legislation governing university technology transfer, notably the enactment of Bayh-Dole in the US in 2008, have provided further incentives for the commercialisation of university-based technologies and have *'resulted in nearly all major universities establishing a technology transfer office, with an increasing attention given to academic patents and to licensing the results'* (Grimaldi et al. 2011, 1046).

The individual motivations (agency) that underpin the decision to spin-out are at the core of the bottom-up approach; these can involve multiple rationales and a process of contestation between different viewpoints as to the validity and strength of the case to activate the creation of a new venture. Motivations can include frustration as a result of new ideas being ignored by the employer - the 'disagreement' theory; employees perceiving that they have better information about the value of their ideas than their employer – the 'adverse selection' theory; and fear that the employer may expropriate the rents flowing from innovation or because the employer discourages innovative ideas in order to maintain the status quo (Cabral and Wang 2009).

The incentive structure, and particularly the potential monetary rewards that senior managers leading the spin-out process stand to gain, is at the core of most of these rationales. A case in point is that of hi-tech knowledge-intensive industries where, in order to motivate managers to take the risk of setting up a new venture, generous share- and equity-based incentives are offered (Anslinger 2000). Such risks may be particularly high in USOs, given that business acumen and entrepreneurial cultures are less prevalent among university researchers (Wright et al. 2008).

(ii) Legal form, ownership and governance structure

A key prerequisite for the offspring to be recognised as a spin-out is that it is constituted as an 'independent legal entity' (Lindholm 1997). The incorporation of a new business entails rights and obligations (e.g. for taxation purposes) and the literature shows that CSOs and USOs primarily adopt traditional private sector legal forms (Grimaldi et al. 2011; Mustar et al. 2006). The mechanism for creating an independent spin-out through the sale and/or division of a company from a corporate parent is primarily by issuing shares in the new venture. Shareowners in the parent company receive shares in proportion to their original holding, and often play key roles in the governance of the new venture. In the case of USOs, where the parent university tends to retain ownership of intellectual property (IP), the spin-out vehicle is usually a private company limited by shares which are held by private investors, the research institution and key researchers.

2.3 Resource mobilisation

The third main element in our model of institutional creation relates to resource mobilisation and, in particular, the transference of assets from the parent organisation to the offspring (Zahra, Van de Verde, and Larrañieta 2007). Both tangible and intangible assets may be transferred as part of the 'separation agreement' and the resources involved have a crucial bearing on the competitive advantage of the offspring and the opportunity structure faced. De Cleyn and Braet (2007) posit that the resources transferred vary according to sector, with codified knowledge being the main tangible asset in the case of more product-oriented spin-outs, and intangible or tacit knowledge being the main form in service-oriented ventures.

Tangible resources - Drawing upon resource-based theory, Mustar et al. (2006) identify four types of resources that are crucial in determining the competitive advantage of research-based spin-outs. Most important is the technological resource – i.e. new technologies and related know-how and market knowledge; followed by social, human and financial resources. Mechanisms for transferring such assets can include a licensing agreement to exploit IP commercially, an IP sale, or intangible assets being exchanged for shares in the stock market (De Cleyn, and Braet 2007). Such spin-outs therefore tend to focus on the commercial exploitation of new knowledge rather than developing new knowledge, and hence their potential will only be unlocked if and when they have succeeded in doing so. As pointed out by Zahra, Van de Verde, and Larrañieta (2007, 571), USOs typically commercialise *'radically new and disruptive technologies that create new industries, redefine existing markets and alter the nature and dynamic of competition'*.

Intangible resources - Examples of transferable intangibles include institutional reputation and credibility, corporate cultures, organisational routines, and knowledge inheritance. In examining the performance of USOs, Mustar et al. (2006, 303) observe: *'The reputation of the research organisation may signal the quality of the new venture to both investors and* *potential partners, thus reducing the extent of ex-ante information asymmetries'*. This 'signalling' effect may be critical for the new venture when seeking external finance and recruiting new staff. Another important form of asset transfer - which potentially defines the nature of the child-parent relationship - comprises the signing of a commercial agreement whereby the spin-out becomes a subcontractor of the parent organisation. In many such cases the parent company becomes the new venture's first or major customer, thus helping it to create the cash flow needed to survive in the new competitive context.

Intangibles transferred indirectly, such as corporate reputation and cultures, may also give rise to negative spill-over effects and become a liability. For instance, a parent that has suffered reputational damage leading to stigmatisation may also harm the credibility of an offspring. An underlying problem with USOs relates to the organisational culture that is inherited from the parent university, i.e. *'from what is historically a non-commercial environment'* (Mustar et al. 2006, 290) which can compounded the difficulty of establishing a market presence and achieving sustainable financial returns. One of the main strategies for overcoming this problem is to transform inherited professional and organisational cultures by recruiting new staff who bring market knowledge, often referred to in the literature as 'surrogate entrepreneurs'.

3. Research methods

The study from which this paper draws adopted a qualitative multi-case approach (Eisenhardt, 1989) to examine the recent phenomena of 'social enterprise spin-outs'. The study was conducted between 2012 and 2014 and began with a systematic review of existing data sets comprising aggregate information about the sector so as to estimate its size and profile. The resulting new database consisted of a total of 63 healthcare organisations identified as having spun-out from the public sector, mainly from 2010 onwards, alongside a small comparison group of longer-established leisure trust organisations (3 in total). A total of 30 organisations were invited and agreed to participate in the study - 20 from the original sample contacted and 10 being second-choice organisations. The 30 organisations were roughly representative of the sector in terms of their size (they varied from those employing 5 people to those employing over 2,000 and had an average turnover of over £20 million), location (i.e. being evenly distributed across England), and their date of establishment as independent legal entities (see Table 1).

For each of the selected organisations, qualitative interviews were conducted with CEOs (29 in total); staff members such as senior managers, more junior members of staff and some trade union representatives (166 in total); external stakeholders, such as commissioners of public services and partner organisations (39); and service users or patients and volunteers (35) (Total N= 279).

INSERT TABLE 1 ABOUT HERE

Five bespoke semi-structured questionnaires were used to collect data on the following main themes: motivations and the decision to spin-out; legal forms and governance structures; the relationship with the 'parent' organisation/s, including the transfer of resources; and innovative activity since having left the public sector (i.e. new or improved services, changes to work practices, organisation and systems). The full interview transcripts were initially examined to identify key emerging issues and patterns (Boyatzis 1998) and as informed by the analytical framework of institutional creation developed from the literature review. The transcripts were coded by two researchers to ensure consistency and reliability of approach. Using NVivo software, the data collected was classified using 21 codes under three thematic headings: (*i*) Transition process, main drivers and organisational form - codes 1 to 4; (*ii)*

Types of innovation, main actors and processes - codes 5 to 11; and (*iii*) Strategy, organisational culture and operative environment - codes 12 to 21. Given the focus of this paper, we draw primarily on data from *Code 1* - Motivations to spin out; *C3* - Rationale for social enterprise, mutuality and governance; *C13* - Employee participation and representation; and *C14* - Service users and community participation and representation. A cross case analysis of each of these sub-themes enabled the identification of similarities and differences between case study organisations and the 'ideal type' characteristics observed among CSOs and USOs as derived from the initial literature review.

4. Main findings

4.1 The role of public policy

The starting point of the analysis is the role of public policy as a key driver of institutional creation. At some point in time most of the interviewees from the 30 SESO cases were confronted with the threat of potentially (a) being merged into a larger public sector organisation and losing control of their services; (b) losing their jobs due to the full or partial closure of services; (c) being absorbed by a private corporation or otherwise privatised; or (d) the option of leaving the public sector to become an independent 'mutual' social enterprise. In most of the cases examined, discussions around the need for change were couched in terms of the parent organisation's strategy to cope with government-imposed budget cuts and find an alternative to the contraction and/or closure of services. From the analytical perspective developed here, this can be characterised as a 'top-down' and 'policy-push' approach to business creation which many interviewees described as *'traumatic'*, *'unnerving'* and posing *'great uncertainty'* about the future of their jobs and the services themselves.

4.2 Institutional entrepreneurship

(i) The decision to spin-out and motivations

Following from the above, the case study evidence reveals how the ongoing threat of a hollowing-out or closure of public services triggered discussions among senior managers and staff members, with the idea of 'going independent' emerging as the most attractive realistic option - in many cases involved a discursive process of struggle, with high levels of staff engagement, debate and contestation around the desirability of the transition and the choice of legal form and governance structure. In this way, services and employment would be preserved, as well as there being scope to become more responsive to the needs of service users and local communities. This expression of collective agency – or 'bottom-up' approach - was particularly apparent among those more proactive and forward-looking services that, as a result of earlier NHS reforms, had already gained considerable levels of autonomy (e.g. with respect to financial management) long before the service as a whole had come under threat. Reflecting on the risks and uncertainties involved, the CEO of one small but thriving spin-out pointed out: *'This obviously caused concern for our very small specialist GP* [General Practice doctors] *service because we wondered what would happen to us and we knew that if the provider arm dissolved then we would either be dispersed, the patients would be dispersed, so the service would disappear, or it might be put out onto the open market, out to tender or it could potentially be vertically integrated into an acute hospital physical or mental health service.'*

Frustrations with the perceived negative aspects of public sector culture (e.g. for being highly 'risk-adverse' and unreceptive to new ideas) were also reported as triggers for change. Hence in most cases it was the combination of both 'push' (top-down) and 'pull' (bottom-up) factors which ultimately led to the decision to leave the public sector; corroborating earlier findings from a study by Hall, Miller, and Millar (2012). Service leaders and staff members responded to the various institutional pressures (e.g. from senior managers, on the one hand, and trade unions and staff who wished to remain in the public sector, on the other hand) and policy incentives by exploring and debating the different options, culminating in the decision to exercise their 'Right to Request' to become an independent social enterprise.

The second main driver identified in the literature on CSOs and USOs is that of the potential monetary gains to be made by senior managers of the new venture. In our SESO cases, however, the incentive structure appeared to be dominated by concerns to protect employment and the service ethos, rather than increasing monetary gain. When questioned about the motivations behind the decision to spin-out, CEO interviewees referred to the following 'non-market factors': 'commitment to improve the service' (14 out of 30 CEOs); 'attraction of the social enterprise model' (11 CEOs); 'to save the service from closure' (10); 'to advance employee-ownership and promote staff involvement in decision making' (7) and; 'to promote user and community engagement' in decision-making (6).

INSERT TABLE 2 ABOUT HERE

(ii) Legal form, ownership and governance structure

All of the 30 SESOs sampled were incorporated as independent legal entities, therefore fulfilling the prime requirement to be recognised as spin-outs, and all but one of them had adopted a civil society/third sector legal form. A total of 22 organisations were registered as Community Interest Companies (CICs) - a legal figure established in 2005 by the UK government to facilitate the growth of the social enterprise sector. CICs can be registered as either Companies Limited by Guarantee (CLGs) (13 in our sample) or Companies Limited by

Shares (CLSs) (9 in total). Four were Registered Charities, three were cooperatives and mutuals (registered as Industrial & Provident Societies), and one had adopted a Share Investment Plan (a form of employee-owned company). Important features of the CIC legal form include an asset lock (preventing assets from being liquidised), limits on profit distribution, and an obligation to pursue the community interest; hence, SESOs cannot maximise and distribute profits for private gain.

The fact that most of the 30 cases had adopted a social enterprise form is perhaps unsurprising, given that this was the original policy intention. Yet, the adoption of this form and its practical implications also needs to be understood in relation to the strong public service ethos of the former public sector employees who run SESOs in the new context. A combined interest in and concern for 'community involvement in local services', 'user/patient wellbeing' and 'not-for-profit ethos' (i.e. services that are free at the point of delivery – a foundational principle of the NHS) was given by senior managers and employees of the new ventures, in their role as 'institutional entrepreneurs', as the main reason for favouring the social enterprise model. This came to be viewed as a better alternative to closure or being merged into a larger hospital where employees would have lost control of their services, or services would have lost their distinctive ethos.

Another important difference with most CSOs and USOs is that employees of SESOs can and are expected to become 'owners' and, as such, be represented in the governance structure of organisations' (Mutuals Taskforce 2011, 2012). However, the ideal of employee ownership had yet to be fully realised among the 30 cases, despite most of them having this ideal as a stated objective. At the time of the research fieldwork, only 12 organisations had made substantial progress in securing employee representation on boards of directors, having established 'staff councils' of 'shareholders' or 'members' and staff representatives with responsibility for key corporate decisions (e.g. appointing the CEO) and with the power to hold the board of directors to account; and just five organisations also had introduced formal representation of service users and local communities within their decision-making structure. Although the interview evidence supports that many of the cases had developed more participative cultures since having left the public sector, with staff being more empowered to have input into organisational strategy and innovation (see also Vickers et al. 2017), over a third of the sample still had relatively hierarchical governance structures in place, with shareholders and/or senior managers controlling the board of directors. In most cases, the parent organisation (NHS or local government bodies) had seats on governing bodies and held shares in the new ventures, reflecting the decision-making power that 'parent shareholders' were able to exert, despite the 'independent' status of SESOs. Regarding employee ownership, only an average of 40% of staff across the sample had opted to become an 'owner' with a stake in the new venture (i.e. a 'member' in the case of registered CLGs or a 'shareholder' in the case of CLGs). The slow progress and difficulty experienced around this issue was emphasise by a number of CEO interviewees, one of whom went further to stress that it was difficult to promote the idea of employee ownership given a perception among many staff that *'no one really owns these things'*.

4.3 Resource mobilisation

The two main forms of asset transferred to SESOs as part of the government's Right to Request policy framework were: (1) the whole or part of the existing service/s (including staff and infrastructure) and (2) the signature of a commercial agreement (or sponsorship contract) enabling the new ventures to continue to deliver public services on behalf of the NHS or local government for a certain period of time (typically 3 to 5 years). In approximately half of the SESOs consulted these 'sponsorship' contracts were equivalent to

95% to 100% of the total budget of each organisation, with some new ventures being well into their third year of operation at the time of the research fieldwork. Hence, while some new ventures had managed to diversify their portfolio of (public sector) contracts and/or clients, most exhibited a high level of dependency and financial exposure to single contracts.

The transference of human resources was also important, particularly in relation to the set of capabilities and skills of highly qualified service delivery teams and the ‘institutional entrepreneurs’ who had led the transition from the public sector. Many SESOs were in fact led by forward-looking, inspirational and in some cases ‘maverick’ former public sector staff and managers - unlike those typically characterised in the literature as representing the antithesis of a conductive environment for learning, experimentation and innovation (e.g. Osborne and Brown 2013).

With regard to the ‘corporate culture’ and ‘reputation’ of the new ventures, views varied considerably as to whether the inherited public sector reputation was an asset or a liability. Many interviewees continued to identify with aspects of the culture and ethos of the ‘parent’ organisation, notably a commitment to public services and patient wellbeing. At the same time, some CEOs pointed out that there were some groups (approximately 20% of staff members) who, in their view, continued to display aspects of ‘traditional’ public sector culture and behaviour which was less appropriate to the new context (see Table 2).

Although the evidence shows that the transference of key assets from the parent to the offspring has been critical for the viability of the new ventures, there are important differences to the process observed in CSOs and USOs. Most notably, the commercial exploitation of transferred technological assets was not the main rationale to go independent in the case of SESOs, and there are also important differences with respect to the nature of some of the assets transferred. The 30 cases all delivered health and social care services, and there was no evidence of any technology-driven licencing agreements having been signed or of any intellectual property sale. Likewise, although increased (social) innovation was an expected outcome of the spin-out process (and there is some evidence of this), it was not the starting point. The policy assumption is that the very separation of services from the 'innovation-stifling' and 'risk-adverse' public sector would 'unleash' the creative potential of individuals, and that innovation would naturally follow (Cabinet Office 2011b).

4. Discussion and conclusion

The paper started by asking: What are the foundational characteristics of 'social enterprise spin-outs'? (RQ1) and; Do these features confer them an entrepreneurial edge as providers of public services? (RQ2). In order to answer these questions, evidence from a sample of SESOs delivering health and social care services in England has been used to examine and compare their experiences with what is known about CSOs and USOs, using the analytic lens of McCarthy's (2007) model of institutional creation and change.

In relation to the *role of public policy*, CSOs, USOs and SESOs all emerged within different historical contexts and were created as institutional responses to different economic and political pressures. A key differentiator in the case of SESOs has been the role played by British public policy which has been pivotal for the development of this new sector (e.g. by establishing a legal framework, promoting capacity building and providing funding) and will critically determine the evolving opportunity structure and prospects for these pioneering organisations. This is of foremost importance to understanding the performance of the sector in the current context (late 2017) where there has been renewed policy effort to promote the growth of SESOs after a couple of years of retreat.

In relation to *institutional entrepreneurship*, the study has shown how a combination of *'top-down'* and *'bottom-up'* drivers ultimately triggered decisions to leave the public sector to create new ventures, and that 'institutional entrepreneurs' (Garud, Hardy, and Maguire 2007) – notably the public service leaders of the spin-out process - have played a crucial enabling role in this respect. The particular incentive structures that triggered the decision of service leads and staff to take the risk of leaving the public sector to establish a new business clearly differentiates SESOs from USOs, their closest relatives. While expectation of monetary gain is often a main incentive among CSOs and USOs, non-monetary motivations appear to have been the determining factor in the case of SESOs.

The fact that SESOs generally adopt a different legal structure to that of most CSOs and USOs represents another important point of difference, with the CIC form incorporating an 'asset lock' that prevents asset liquidation and limits profit distribution. Hence, unlike CSOs and USOs, profit maximisation and distribution was not the *raison d'etre* of SESOs becoming independent organisations. A similar conclusion can be drawn regarding the governance structures adopted. Unlike CSOs and USOs, some elements of employee ownership and democratic governance were central to the operations and indeed the mission of most of the SESOs examined, with some exhibiting significant progress towards democratising their governance structures, including some with formal representation of service users and the local community which is generally unheard of among CSOs and USOs. However, multi-stakeholder representation may yet turn into a competitive disadvantage in relation to their profit maximising (service provider) competitors if governance arrangements established by SESOs hinder their business performance.

The last variable examined concerned *resource mobilisation*. A key difference observed was that while license agreements signed between both parties in order to commercialise new knowledge or technological innovation constitute a main *raison d'etre* for CSOs and USOs, this was not the case at all among SESOs. While there is evidence to support that the new 'hybrid' organisational cultures of SESOs are more conducive to public service innovation (Vickers et al. 2017), this is quite different to the role of CSOs and USOs as vehicles for the commercialisation of technology and innovations often developed pre-spinout. Another important differentiator observed in relation to SESOs was the issuing of the first 'sponsorship' contract to supply services to the parent organisation, thus ensuring the financial viability of the new spin-outs in their first years of operation. Such sponsorship contracts are neither the norm among CSOs and USOs nor are they necessarily 'lifesaving' for them, as they seem to have been for SESOs. Again, a question immediately arises here in relation to the sustainability of such business practices and whether SESOs can survive in truly open markets without these 'lifesaving' contracts.

On the basis of our comparative analysis, it is clear that social enterprise spin-outs constitute a novel and innovative form of spin-out organisation and should therefore be acknowledged as such. *In response to RQ1*, distinctive characteristics of SESOs, some of which are in opposition to those observed among CSOs and USOs, relate to: (i) the origins of the spin-out form (public policy drivers vs market drivers in CSOs and USOs); (ii) the incentive structure that motivated 'institutional entrepreneurs' to leave the 'parent' organisation and take the risk of establishing a new venture (non-monetary vs monetary incentives in CSOs); (iii) the legal form and governance structures adopted (employee ownership vs private ownership); and (iv) *raison d'etre* (a drive to maintain and improve public services vs the commercial exploitation of new technologies in CSOs and USOs). This is the first contribution to knowledge of this paper and demonstrates the pertinence of the conceptual framework utilised for the comparative analysis and which could therefore be replicated and expanded in future research.

In response to RQ2 - whether these characteristics confer on SESOs an entrepreneurial edge as providers of public services; the fact that SESOs as hybrid organisations can combine the best of three different institutional logics (public ethos, private efficiency and third sector social awareness) may confer them a competitive age to succeed in the quasi-markets for public services. However, some of their features may become counterproductive and hinder their competitive potential in relation to larger private sector providers which may have a greater ability to offer economies of scale in a context of ongoing public sector austerity. In practical terms, SESOs have yet to demonstrate that they can reduce their high level of financial dependency on the parent organisation/s, notably by diversifying their portfolio of (public sector) contracts and clients, although some of the cases were in the process of doing this. There is likely to be a trade-off, however, between becoming more competitive in the public service market and the furtherance of organisations' social mission and democratic governance, as has been found within the social enterprise world more generally (Sepulveda 2015). How to balance the tensions and trade-offs between commercial and social imperatives is in effect a recurrent theme in the social enterprise literature (Doherty, Haugh, and Lyon 2014) and here it has been given a new twist by focusing on the pioneering experiences of SESOs as public service innovators. These issues will become central by the time these organisations have to renew, or find alternatives for, their 'lifesaving' 'sponsorship' contracts with the public sector.

Despite the depth of the case study approach adopted and the important lessons for public policy and practice offered by the experience of SESOs, the research has some limitations which leads us to identify some avenues for further research. The analysis presented here lacks a detailed examination of key variables such SESOs' age, geography, main activity and size, which are critical to understand issues such as access to resources and organisational management and strategy. At the time of the research fieldwork, most organisations had not yet reached the end of their first 'sponsorship' contract and therefore we were unable to fully examine critical concerns such as the long-term financial sustainability of the organisations. This also suggests a need for longitudinal studies on the sector focused on how the variables examined in the study and others unfold overtime and in different economic and political contexts.

Notes

(1) https://www.gov.uk/government/news/cabinet-office-mutuals-reach-century-success (last accessed: 9-2-17)

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Tables

Table 1 – Profile of Organisations

Case number	Main activity	Year of registration	No of employees	Turnover	Legal form
1	Community healthcare	2011	1100	£50,000,000	CIC – CLS
2	Community health/social care	2011	1700	£50,000,000	CIC – CLG
3	Adults with learning disabilities	2007	25	£250,000	CIC – CLS
4	Elderly home care	1994	360	£5,500,000	SIP
5	Residential respite & day care services	1997	700	£15,000,000	Charity – CLG
6	Primary care (General Practitioners)	2007	55	£2,200,000	CIC – CLS
7	Mental health	2011	25	£925,000	CIC – CLS
8	Community healthcare	2010	600	£25,000,000	CIC – CLG
9	Community healthcare	2011	1250	£47,000,000	CIC – CLS
10	Primary healthcare	2010	15	£900,000	CIC – CLS
11	Community healthcare	2011	850	£30,000,000	CIC – CLS
12	Mental health	2011	50	£272,940	Industrial & Provident Society (IPS) Bencomm
13	Community drug/alcohol services	2011	170	£8,000,000	CIC – CLS
14	Mental health	2011	500	£21,000,000	CIC – CLG
15	Services for disabled people	2011	46	£2,700,000	CIC – CLG
16	End of life care	2011	170	--	CIC – CLS
17	Community services	2011	1300	£36,000,000	CIC – CLG
18	Children's mental health	2011	40	£1,200,000	CIC – CLS
19	Adults with learning disabilities	2011	40	£600,000	Charity - CLG
20	Community healthcare	2011	300	£16,000,000	CIC – CLS
21	Community healthcare	2011	2082	£87,000,000	CIC – CLG
22	Community healthcare	2011	2000	£90,000,000	CIC – CLG
23	Adults with learning disabilities	2005	200	£6,000,000	Charity - CLG
24	Adults with learning disabilities	2013	16	--	CIC – CLS
25	Social care	2011	40	£1,000,000	CIC – CLS
26	Primary care	2006	4	£100,000	CIC – CLG
27	Specialist service	2011	10	£888,000	CIC – CLG
28	Leisure centre	2002	350	£7,000,000	IPS bona fide
29	Leisure centre	1992	62	--	Charity - CLG
30	Leisure centre	2002	2500	£40,000,000	IPS Bencomm

Table 2. CSOs, USOs and SESOs from a comparative perspective

Spin-out form Key comparator	Corporate Spin-Outs (CSOs)	University Spin-Outs (USOSs)	Public Sector Social Enterprise Spin-Outs (SESOs)
Origins	- Emerge from large corporations to commercially exploit new knowledge - Long documented history (since 19th Century) - Market pressures (little apparent policy push) - Tax incentives	- Emerge from research institutions, in partnerships with private companies, to exploit new knowledge - From 1980s onwards - Policy push and market demands	- Emerge from within public sector bodies as an innovative form for delivering public services - Early 2000s onwards - Decisive policy push: public service reforms and budgetary pressures
The decision to spin-out	- Predominant 'top-down' (parent 'push'), but also cases of 'bottom-up' motivations	- Mainly 'top-down' approach to spin-out	- Combination of 'top-down' and 'bottom-up' drivers
Motivations & incentive structure	- Expected monetary gains - Key personnel hold shares/equity	- Expected monetary gains - Key personnel and universities hold shares/ equity	- To maintain and improve services by empowering staff and being more responsive to user communities – *creation of social value* - Staff and key personnel hold 'nominal' shares (employee ownership)
Legal form and governance structure	- Legally incorporated business entity - Traditional private sector legal forms - Intellectual Property (key personnel hold shares/equity) - Hierarchical governance (CEOs/shareholders led) – staff representation not an issue at all	- Legally incorporated business entity – Traditional private sector legal forms - Intellectual Property (key personnel hold shares/equity) - Hierarchical governance (CEO/shareholder led) – staff representation/democratic governance not an issue at all	- Legally incorporated business entity - Non-profit legal form adopted (Community Interest Companies) - Little potential to protect innovation (i.e. service focus of improvement and innovation) - Democratic governance arrangements encourage staff/user representation and participation
Resource mobilisation	- Licensing agreement to commercialise new technologies - Provision of incubation/operation space - Cases of commercial agreement to provide product/services to the parent organisation - Inherited corporate reputation & culture - Key managerial/technical human resource transferred over	- Licensing agreement to commercialise new technologies - Provision of incubation/operation space - Cases of commercial agreement to provide product/services to the parent organisation - Inherited corporate reputation & culture (negative views on universities' lack of business acumen) - Key researchers/technical human resource transferred over	- No licensing agreements/IP - Increased levels of innovation expected - State provision of incubation/operation space - Commercial agreement/sponsorship contracts - Inherited corporate reputation & culture, including public service ethos of care; but also 'negative' influence of 'bureaucratic and risk averse' public sector culture - All staff transferred (senior managers, clinical, administrative, junior) – *'Collective institutional entrepreneurship'*